CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 24, 2008

H.R. 5720
Housing Assistance Tax Act of 2008

As ordered reported by the House Committee on Ways and Means on April 9, 2008

SUMMARY

H.R. 5720 would amend tax law relating to a variety of housing matters, such as the low-income housing credit, tax-exempt housing bonds, and refundable credits for first-time home buyers. The Joint Committee on Taxation (JCT) and the Congressional Budget Office estimate that enacting H.R. 5720 would decrease revenues by $0.6 billion in 2008 and increase revenues by $3.9 billion over the 2008-2018 period. CBO and JCT estimate that enacting the bill would increase direct spending by $3.9 billion over the 2008-2018 period. On net, the bill would reduce budget deficits (or increase surpluses) by a total of $279 million over the 2008-2013 period and $18 million over the 2008-2018 period.

JCT has reviewed the bill and determined that it contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). JCT has also determined that the bill contains two private-sector mandates: the adjustment of rules governing the reporting of information by brokers and the delay in implementing worldwide allocation of interest expense until 2010. JCT estimates that the costs required to comply with the mandates would exceed the annual threshold established by UMRA ($136 million in 2008, adjusted annually for inflation) in each of the next five years (2009 through 2013).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5720 is shown in the following table. The costs of this legislation fall within budget functions 600 (income security) and 900 (net interest).

	By Fiscal Year, in Millions of Dollars												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2008-2013	2008-2018
CHANGES IN REVENUES													
Refundable Credit for First-Time Homebuyers	-419	-5,241	-1,636	1,147	1,421	1,261	1,101	941	721	354	138	-3,467	-211
Repeal Certain Alternative Minimum Tax Limitations	-68	-137	-206	-207	-206	-203	-203	-204	-206	-208	-210	-1,026	-2,057
Rules for Mortgage Bonds	-22	-90	-146	-154	-153	-148	-141	-135	-129	-125	-125	-712	-1,368
Increased Cap for LIHTC	-1	-34	-74	-109	-119	-119	-119	-119	-119	-119	-119	-456	-1,051
Brokers' Reporting Rules	0	0	0	34	214	465	794	1,286	1,611	1,737	1,840	713	7,980
Delay in Worldwide Interest Allocation Rules	0	1,029	1,774	375	0	0	0	0	0	0	0	3,178	3,178
Corporate Estimated Tax Payment Due in 2013	0	0	0	0	-9,934	17,296	-7,362	0	0	0	0	7,362	0
Other Provisions	-65	-1,100	-23	-15	-73	-123	-152	-189	-227	-267	-307	-1,403	-2,543
Total Changes in Revenues	-575	-5,573	-311	1,071	-8,850	18,429	-6,082	1,580	1,651	1,372	1,217	4,189	3,928
CHANGES IN DIRECT SPENDING													
Refundable Credit for First-Time Homebuyers													
Estimated Budget Authority	210	2,621	949	0	0	0	0	0	0	0	0	3,780	3,780
Estimated Outlays	210	2,621	949	0	0	0	0	0	0	0	0	3,780	3,780
Treatment of Guaranteed Bonds													
Estimated Budget Authority	0	-52	91	69	22	0	0	0	0	0	0	130	130
Estimated Outlays	0	-52	83	60	34	5	0	0	0	0	0	130	130
Total Changes in Direct Spending													
Estimated Budget Authority	210	2,569	1,040	69	22	0	0	0	0	0	0	3,910	3,910
Estimated Outlays	210	2,569	1,032	60	34	5	0	0	0	0	0	3,910	3,910
NET CHANGE IN THE BUDGET DEFICIT OR SURPLUS													
Net Change in the Budget Deficit or Surplus[a]	-785	-8,142	-1,343	1,011	-8,884	18,424	-6,082	1,580	1,651	1,372	1,217	279	18

Sources: Congressional Budget Office and Joint Committee on Taxation.

Note: LIHTC = low-income housing tax credit.

a. Negative numbers indicate increases in deficits (or decreases in surpluses); positive numbers indicate decreases in deficits (or increases in surpluses).

BASIS OF THE ESTIMATE

JCT estimated the effects of H.R. 5720 on revenues, with the exception of one provision. CBO estimated effects on direct spending and revenues from the provision that would modify the treatment of certain bonds guaranteed by the Federal Home Loan Banks. For this estimate, JCT and CBO assume the bill will be enacted by June 1, 2008.

Revenues

The effects on revenues would be attributable to a number of provisions. This section describes several of those provisions that have significant effects.

Refundable Credit for Certain First-Time Homebuyers. For certain taxpayers who have not had ownership interest in a principal residence within the past three years, H.R. 5720 would allow such persons, upon purchasing a home, to claim a refundable tax credit of up to $7,500. The home must be purchased between April 8, 2008, and April 1, 2009, and the amount of the credit would be paid back in higher tax liability over a 15-year period beginning two years after the home purchase. JCT estimates that enacting this provision would decrease revenues by $3.5 billion over the 2008-2013 period and by $211 million over the 2008-2018 period. The provision also would affect direct spending (see the "Direct Spending" section).

Repeal of Certain Alternative Minimum Tax Limitations. Under current law, the low-income housing credit and the rehabilitation credit, which provide incentives for investment in low-income housing and reconstruction of certain types of buildings, may not be claimed against a taxpayer's alternative minimum tax (AMT) liability. H.R. 5720 would allow those credits to offset the AMT. In addition, the bill would exclude interest on tax-exempt housing bonds from the AMT. JCT estimates that this provision would reduce revenues by $2.1 billion over the 2008-2018 period.

Mortgage Revenue Bonds and Multifamily Housing Bonds. The bill would authorize state housing authorities to issue a total of $10 billion in additional private-activity bonds, to be used as mortgage revenue bonds and multifamily bonds (which finance multifamily housing projects). Those bonds, which would have to be issued by the end of 2010, could be used to refinance subprime mortgage loans. Additionally, the interest earned on such mortgage revenue bonds would be exempt from the alternative minimum tax. JCT estimates that enacting those provisions would decrease revenues by $1.4 billion over the 2008-2018 period.

Increase Volume Cap for Low-Income Housing Credit. Certain owners of low-income housing projects may claim a credit against their taxable income if they receive a low-income housing credit allocation from their state or local housing credit agency. Each state is provided with an annual ceiling on its authority to allocate such credits. Under the bill, the state ceilings would be raised for calendar years 2008 and 2009. JCT estimates that this provision would decrease revenues by $1.1 billion over the 2008-2018 period.

Broker Reporting of Customers' Basis in Securities Transactions. The bill would adjust the rules and requirements imposed on brokers for the reporting of their customers' adjusted basis in certain financial securities. A customer's basis in a security, such as stock in a corporation, is a figure used to calculate the gain or loss on the sale of a security. For many securities, the adjusted basis is the cost incurred to acquire the security. Under H.R. 5720, brokers involved in the sale of certain types of securities would be required to file information returns with the IRS that include their customers' adjusted basis in the applicable security. This additional information reporting would be necessary for certain types of securities generally acquired after December 31, 2009. JCT estimates that enacting these provisions would increase revenues by $8.0 billion over the 2008-2018 period.

Delay the Application of Worldwide Interest Allocation. The bill would delay until 2010 the effective date of a provision enacted in the American Jobs Creation Act of 2004 that, starting in 2009, allows businesses to use an alternative method for allocating their interest expenses between the United States and foreign sources. Additionally, the bill would require a phase-in of the alternative allocation in the first tax year in which the new rules apply. JCT estimates that the changes would increase revenues by $3.2 billion over the 2009-2011 period.

Other Provisions. H.R. 5720 would shift revenues out of 2012 and 2014 and into 2013 by adjusting the portion of corporate estimated tax payments due in July through September of 2012 and 2013. JCT estimates that this change would reduce revenues by $9.9 billion in 2012, increase them by $17.3 billion in 2013, and reduce them by $7.4 billion in 2014. The bill would also modify the tax rules applicable to real estate investment trusts. JCT estimates that this and other provisions would decrease revenues by $2.5 billion over the 2008-2018 period.

Direct Spending

Refundable Credit for First-Time Homebuyers. As discussed above, the bill would allow certain persons, upon purchasing a home, to receive a refundable tax credit for up to $7,500.

JCT estimates that the provision would increase outlays from the refundable credit by $3.8 billion over the 2008-2010 period.

Modify Treatment of Certain Guaranteed Bonds. Under the bill, interest on certain bonds guaranteed by Federal Home Loan Banks (FHLBs) before January 1, 2011, would be excluded from gross income for purposes of federal income taxes. CBO estimates that enacting this provision would increase direct spending by $130 million over the 2009-2013 period.

CBO expects that authorizing the FHLBs to guarantee certain tax-exempt debt would increase their profitability by allowing them to provide new services on favorable terms. Any additional income earned by the FHLBs would be subject to statutory fees that are spent for an Affordable Housing Program (AHP) and for a portion of the interest due on bonds issued by the Resolution Funding Corporation (REFCORP). Based on JCT's projections of that additional income, CBO estimates that the FHLBs would have to set aside $128 million for the AHP; that amount would appear as both a revenue and an outlay on the federal budget over the 2009-2013 period. (The FHLBs are government sponsored enterprises, not government agencies; most of their activities are not reflected in the federal budget.)

Changes in the FHLBs' payments on REFCORP bonds affect direct spending because any amounts not paid by the banks are paid by the U.S. Treasury. The effect on direct spending for the REFCORP bonds is projected to be small—$2 million over the five-year period—because CBO's baseline projections anticipate that the FHLBs will have satisfied their interest obligation by the end of 2010, so any additional payments in 2009 (which would reduce the amount paid by the Treasury by an estimated $55 million) would be offset by lower contributions in 2010 (which would increase Treasury payments by $57 million).

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has reviewed the bill and determined that it contains no intergovernmental mandates as defined in UMRA. JCT has also determined that the bill contains two private-sector mandates as defined in UMRA. The bill would require that brokers report their customers' basis in securities transactions, and it would also delay and limit the implementation of worldwide interest allocation. JCT estimates the costs required to comply with the mandates would exceed the annual threshold established by UMRA ($136 million in 2008, adjusted annually for inflation) in each of the next five years.

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